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SUBJECT: ENTRENCHED CORRUPTION IN KURDISTAN REGION OF IRAQ

Classified By: Anti-Corruption Coordinator Lawrence Benedict for reasons 1.4(b) and (d).

SUMMARY

1. (S) Anti-Corruption Coordinator, Lawrence Benedict, Embassy Baghdad Anti-Corruption Coordination Office (ACCO) and Erbil RRT officers met August 11-14 with Kurdistan Regional Government (KRG) officials, non-governmental organizations, and representatives of the private sector to gauge the corruption landscape in the Kurdistan region, discuss KRG anti-corruption efforts, and brief local stakeholders on planned USG financial support of a program led by the United Nations Development Program (UNDP) to build anti-corruption capacity at the regional and provincial levels in Iraq. Media observers and private businessmen said the entrenched domination of the government by the two ruling parties is manifested in a bloated civil service bureaucracy whose raison d'etre is to serve as an enormous patronage network for the Kurdish Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK). Despite official KRG pronouncements to the contrary by KRG Board of Investment chairman Herish Muharam Muhamad, many investors in practice must partner with holding companies affiliated with one of the two main parties in order to gain access to the Kurdish market. While KRG officials up to the Prime Minister offered us encouraging words about efforts underway to combat corruption, and have shown willingness to invite the advice of international experts such as Price Waterhouse, significant hurdles remain. Among these are a failure to recognize the full scope of corruption's reach in the Kurdistan region, an ineffective and often intimidated press, lack of legal recourse, and still weak civil society organizations. END SUMMARY.

ENTRENCHED PARTY STRUCTURE ENABLES WASTE AND CORRUPTION

2. (C) Media observers and private businessmen described to ACCO and RRT Erbil officers the lack of separation between political parties and government institutions that plagues the KRG region, manifested in a bloated civil service bureaucracy whose raison d'etre is to serve as an enormous patronage network for the KDP and PUK. According to Nachirwan Mustafa, a former PUK Deputy Secretary General who now runs a media outlet in Sulaymaniyah, each party receives \$35 million per month from the KRG's national budget allocation (about 20 percent of the total), not including funds raised within the Kurdistan region, for which there is no public accounting. This is included in the KRG budget under a "Strategic Investments" heading; items listed under this heading are lumped together without further explanation. He estimated that 80 percent of the KRG's budget went to pay the salaries of the KRG's civil servants, estimated at around one million workers) out of a working-age population of about 2 million - but for whom there is no accurate accounting. Many of these "civil servants", one private businessman told us, work one week out of three months but

receive a full-time salary. The resultant broad political machine serves to solidify party loyalty but comes at the cost of recognizable economic development or real employment.

Mustafa lamented the poor infrastructure and intermittent utilities for Sulaymaniyah's population of 750,000, despite the Sulaymaniyah government's receipt of \$21 billion over the last five years.

13. (C) Mustafa said that the reach of the two parties was so deep that foreign firms wishing to invest in Sulaymaniyah, for example, were required to work through PUK fronts to gain access to the local market. The largest of these was the PUK holding company NOKAN, which represented 18 other companies across a wide spectrum of economic activities. Some KRG officials dismissed the notion of a set list of partners, but even Prime Minister Barzani acknowledged to us in a 14 August breakfast meeting that there was a perception by foreign investors that they had to partner with either the KDP or the PUK -) a phenomenon he said he "can't say is not true."

SOME KRG OFFICIALS SAY THE RIGHT THINGS...

14. (C) KRG officials outlined the government structures already in place or underway to combat corruption. Prime Minister Barzani told us of plans to establish in the next few months a high-level commission to combat corruption. Finance Minister Sarkis Agjahan Mamendu said the KRG had an independent Supreme Auditing Board as well as auditing offices within each of the ministries. (NOTE: It was our understanding that the Supreme Auditing Board is independent but modeled along the lines of the national Board of Supreme

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Audit (BSA). END NOTE.) The chairman of the KRG Board of Investment, Herish Muharam Muhamad, told us that he gives out his cell phone to potential investors with the guidance to call him directly if some sort of bribe is demanded. So far, Herish said, investors had not taken him up on his offer. Finally, Dr. Kemal Kerkui, the Deputy Speaker of the Kurdish National Assembly (KNA), shared with us two draft laws before the KNA to establish an anti-corruption committee and to enable public to access government information.

15. (C) The KRG has shown a receptiveness to international technical advice pertaining to anti-corruption. Prime Minister Barzani described the KRG's decision to hire Price Waterhouse to conduct a comprehensive needs assessment of the corruption environment in the Kurdish regions. The 3-month assessment will begin next month. Interior Minister Karim Sinjari noted that the KRG was working on a program with the Lithuanian Institute to Fight Corruption. In addition, nearly all KRG officials to whom we mentioned it were enthusiastic about ACCO's intention to fund anti-corruption programming at the regional level through the United Nations Development Program in the coming fiscal year.

...BUT HURDLES REMAIN

16. (C) With many government officials we met, there appeared little urgency to confront corruption in the Kurdistan region. Minister Sarkis explained at length the numerous financial controls in place by the KRG's ministries to oversee budget execution. According to him and several others, the KRG's budget process was completely transparent with all necessary checks and balances in place. There was nothing left to do, according to the Minister. However, Sarkis complained that the central government selected "sovereign projects" whose cost were then deducted from the 17 percent share of national revenues accorded to the Kurdish regions. As a result, the amount the KRG actually receives is between 12 and 13 percent of total expenditures. (Comment: This is true but Sarkis' emphasis is misplaced. There is vigorous GOI debate over which budget items should be included "above the line" as Iraqi sovereign projects

(i.e. benefiting all of Iraq), and once that is decided the KRG gets 17 percent of the remainder. But it,s not always, or even often, that the central government,s perspective prevails. For example, in the recent debate over the FY 2008 supplemental budget, a significant sum for the Boeing purchase for the Iraqi national airline was not counted as a sovereign benefit, giving the KRG over \$200 million in additional funds. End Comment.) Despite Sarkis' insistence that the KRG's budget was transparent, the civil society groups we met said that the published budgets were vague and they offered virtually no insight into how the government actually allocated its funds, or detailed unexplained strategic investments. PUK Politburo Director Mala Bakhtiar offered a few platitudes on the ills of corruption after which he launched into a 45 minute history of the PUK. None of the officials we met pointed to the almost total domination by the two parties of Kurdish politics and business as an enabler of corruption.

¶7. (C) Journalists in the Kurdish region provide limited coverage of corruption cases but when they do are criticized by government officials for leading slanderous attacks. A journalist in Kirkuk who had written on prostitution and corruption in the police forces was murdered in July (reported septel). Kurdish journalists in Sulaymaniyah we met with August 12 were palpably upset by the case and were worried that their ability to report on corruption would worsen if the murdered journalist's case was not properly investigated and prosecuted. One said there was a KDP "black list" and that the murdered journalist had been on it even before he wrote his corruption story. Another told us of a near-fatal beating he suffered during a July 28 demonstration in Kirkuk in which he was left for dead. Most of his teeth had been kicked or beaten out and he bore other outward signs of the attack which he said was a result of being on the black list. (Note: According to some eyewitnesses -- as reported by the NYT -- the crowd thought he was a Turkoman journalist and, believing that the suicide bomb had been a Turkoman plot, they turned on him and almost beat him to death. End Note.) The journalist told us that he had been speaking Kurdish. Government officials, for their part, expressed sympathy about the murdered journalist but were uniformly critical of what they assessed to be the poor journalistic tradecraft and slanderous attacks on individuals and families frequently conducted by the Kurdish press.

¶8. (C) Lack of legal recourse remains another key obstacle to transparency in the Kurdish regions. Private businessmen, journalists, and civil society organizers unvaryingly found

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the notion of taking corruption claims to the courts laughable. Nechirvan Mustafa, the former PUK Deputy Secretary General, underscored that there was no judicial or other system to mediate disputes between a company and the KRG. Prime Minister Barzani also acknowledged the poor quality of judges and their need for training and other improvements in the judicial system. More than one interlocutor asserted that there was no judicial system in Kurdistan.

¶9. (C) Non-governmental organizations have begun some efforts to address corruption in the Kurdish regions but there are no civil society organizations with an explicit anti-corruption focus. Initial programs underway include survey work and limited media outreach, such as the publishing of caricatures and production of documentaries. The NGOs we met with acknowledged that they have relied on financial support from foreign, mainly US, organizations such as the National Democratic Institute, the International Republican Institute, and the American Development Foundation.

COMMENT

¶10. (S) Throughout our meetings with KRG officials, private

businesspeople and civil society, ACCO and RRT officers stressed the importance of promoting transparency based on internationally recognized best practices, the need for a free press, and the deleterious impact of corruption on foreign investment. The entrenched two-party domination of the government and of economic activity results in a systematic looting of government revenues by the parties and the families that control them. This, along with a dearth of capable, established national anti-corruption bodies such as the Board of Supreme Audit and the Commission of Integrity, makes anti-corruption efforts more daunting in the Kurdistan region than other parts of the country. The region has a long way to go in terms of budget transparency, freedom of the press, and judicial capacity building. The warm treatment accorded to us, however, suggests that USG anti-corruption efforts will not require the same mantle of internationalization to get political buy-in that we have increasingly faced in Baghdad at the national level. Whether the political will exists to tackle this problem is open to question. KRG officials up to the Prime Minister repeated the refrain throughout our visit of the dire need for budget and financial management training for KRG officials. Should resources become available in the coming fiscal year, such support would surely be well received by the KRG and be a good first step to tackling the region's deeply rooted problems.

BUTENIS